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Polish-Soviet Economic Ties

The USSR is Poland's largest and most important trade partner accounting for about one-third of total Polish imports and exports. Warsaw and Moscow also cooperate in many ventures including industrial specialization projects and joint investments.

- o Poland relies on the USSR for soft currency purchases of fuels, chemicals, metals, and raw materials, including over 80 percent of the crude oil, iron ore, and asbestos consumed in the country.
- o The USSR gains from joint projects in Poland, especially in industries where Moscow faces domestic shortages: shipbuilding, aircraft, autos, and construction machinery.

This memorandum was prepared by [] East European Division, Office of European Analysis. It was requested by Thomas W. Simons, Deputy Assistant Secretary for European Affairs, US Department of State. Comments and questions are welcome and should be addressed to [] Acting Chief, East European Division

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Poland has made major contributions to the Soviet economy, even though its exports to the USSR account for only a small share of the Soviet Union's consumption. While measuring the extent of the contribution is difficult because of the Soviet unwillingness to advertise potential vulnerabilities, some conclusions can be drawn.

- o The bulk of Poland's exports to the USSR are finished products, such as machinery, chemicals and consumer goods, purchased with soft currency and sometimes higher quality than items produced in the Soviet Union. The Polish contribution has dominated in some industries. For example, more than half of Soviet sulfuric acid, an important chemical, is produced in plants purchased from Poland.
- o Sales of some goods, such as coal, steel, and freightcars help relieve Soviet industrial bottlenecks.
- o Poland's proximity to Soviet industrial centers help decrease raw material transportation costs.
- o Warsaw has assisted in developing raw material sites and building factories, oil and gas pipelines, nuclear power plants, and electric power lines in the USSR in return for a share of the output.

Moscow will try to tilt the balance of benefits with Warsaw more in its direction in the next five years, because the Soviets perceive that Poland, on balance, has been an economic liability over the past decade. The Soviet Union:

- o tolerated over 6 billion rubles in trade deficits accumulated over the last 10 years.
- o extended special considerations to prevent the collapse of the economy in 1980-81, especially by granting hard currency aid and permitting a falloff in exports.
- o continued to provide help, but at reduced levels into the post-martial law period by treating Poland more favorably than other East European countries.

The USSR is now demanding balanced trade with Poland by 1988, increased economic integration, and strong Polish participation in

the CEMA 2000 program to bring Eastern Bloc technology nearer to Western levels. The Soviets, however, face major obstacles in its efforts to capture more benefits from economic relations with Poland.

- o Poland desires continued economic assistance and does not want to run trade surpluses with the USSR, preferring instead to export for hard currency. Warsaw, sensing Moscow's fear of domestic instability, probably will cite the risk of burdening its economy from increased exports to the USSR.
- o Warsaw continues to fall short in meeting its trade plans: the trade deficit in 1985 was 900 million rubles, although a 600 million ruble deficit was planned. In the first six months of 1986, the deficit was 500 million rubles.
- o Prospective declines in Soviet oil prices may help Warsaw balance its trade and repay its debt without sending more resources to the USSR.

Moscow's chances of acquiring more resources from Poland depend significantly on sustained recovery of the Polish economy. This hinges in large part on Warsaw's willingness to implement major economic reforms, but changes are unlikely given the political and economic constraints imposed by the Soviets. It also depends on the West's response to Poland's request for financial assistance. The West, however, faces a dilemma when deciding on granting aid:

- o The more resources the West puts into Poland, the better are Moscow's prospects of reducing the costs and increasing the benefits from its economic relations with Poland.
- o Unwillingness to provide economic assistance, however, could weaken any incentive for Warsaw to introduce economic and political reforms desired by the West.

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